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The Effect of the Fungibility Approach to Foreign Branch Banking in the United States

by Charles T. Crawford, Secretary of the Firm, Price Waterhouse & Co., National Office, New York

The International Banking Act of 1978 established as United States policy, the "principle of parity of treatment between foreign and domestic banks in like circumstances." Foreign banks are to be "treated as competitive equals with their domestic counterparts."

However, almost before the ink was dry on the Banking Act, the IRS announced, in Revenue Ruling 78-423, that branches of foreign banks should compute their interest expense in a way that would increase the income tax of some, many fold, and would reduce or even eliminate the income tax of others. The Ruling provided that foreign branch banks should use the "fungibility" approach to compute their interest expense for U.S. income tax purposes, as stated in the Treasury's 1977 final regulation 861-8. Under this method a branch is allocated a portion of the bank's worldwide interest expense. The allocation, at the bank's election, would be on the basis of (1) U.S. assets to total assets or (2) U.S. gross income to total gross income. (In the case of nonmanufacturing businesses like banks, "gross income" means "gross receipts.") Thus the U.S. branch would have an interest deduction based on the bank's average cost of funds world-wide. The principal factors in this average cost are (1) the prime rate for borrowed funds in the bank's home currency and (2) the makeup of the bank's capital base. Up to now U.S. branches have generally computed their interest expense as if they were separate entities; i.e., deducting locally incurred interest plus a charge for funds advanced from the home bank. The entity approach had been considered authorized by the U.S. tax treaties with the various industrial countries.

Because of the stability of the Deutschemark, German banks will be among the hardest hit. The Bundesverband deutscher Banken, the German banking trade group, estimates that the new allocation formula will lead to a six-fold increase in the taxable income of German branches in the United States.

This writer and others believe that the IRS position cannot withstand a test in court. There are indications that IRS may now share this view, and for this and other reasons may withdraw its fungibility ruling. There also are indications that the withdrawal will be accompanied by new Treasury Regulations dealing with the question of interest deductions for international banking operations—both U.S. and foreign based. The direction the new regulations will take is unknown. Hence the possibility of change may not be viewed with enthusiasm by the U.S. multinational banks, who can live with the present law.

Because the IRS ruling may not be in accordance with U.S. tax law, the foreign branches that are hurt by it are filing their returns on the entity base (with appropriate disclosure). If the IRS challenges these returns, the issue will be resolved in court. The branches whose taxes are reduced by the fungibility approach are, quite understandably, now filing their returns on that basis. Some, in fact, have filed amended returns for 1977 (the effective date of the fungibility regulations is January 1, 1977).

Effect of the fungibility approach

If the prime rate in the home country currency is lower than the dollar prime rate, the bank's average interest rate on marketplace borrowings will, all else being equal, be less than that of its U.S. branch. On the other hand, if the home country rate is quite high, the interest expense allocated to the U.S. branch may eliminate its taxable income entirely. However, the makeup of the funds base may be such that the overall average cost of funds is less than that of the U.S. branch, even though the home currency prime rate is higher than that of the dollar. The spread between the U.S. prime rate, 13.50% on October 5, and the prime rates in the other industrial countries sometimes is dramatic. The prime rate on October 5 in Germany was 8.25%, Japan 5.50%, the Netherlands 11.0%, Switzerland 4.0%, and the U.K. 15.5%. On the same date, the prime rate in Brazil was 60%. Because of the reinforcing effect of the home bank's funds base, it is safe to assume that any branch with a home-currency prime rate less than that of the U.S. is very adversely affected by the fungibility approach.

This certainly is true in the case of the German banks. In a recent year several German banks with U.S. branches paid income taxes totaling $3 million. This was approximately 43% of their pretax profit of $7 million. Interest expense was computed by the entity approach and amounted to $98 million. Using the fungibility approach the interest deduction would have been $70 million, taxable income $35 million, and the tax liability $16 million. On this basis the banks would have lost an aggregate of $9 million on their U.S. branch operations. German bank officials have stated that if Rul. 78-423 is not withdrawn they must rethink the scope and form of their U.S. operations.

Tax treaties

U.S. law provides that tax treaties take precedence over domestic tax law. Taxpayers, however, may use domestic law provisions if they are more beneficial than those of the treaties. It has been assumed by all that the tax treaties between the U.S. and other industrial countries authorized interest expense to be computed by the entity approach. However, in Revenue Ruling 78-423 the IRS takes the position that the U.S.-Japan Treaty does not provide a specific rule for the allocation of expenses, and thus the general law of the U.S. applies. Since the pertinent provisions of the U.S.-Japan Treaty are identical to the parallel provisions of the U.S. treaties with the other industrial countries, the ruling will apply to virtually all branch banks in the United States.

However, a good case can be made that the IRS is wrong in stating that the U.S.-Japan Treaty does not require interest expense to be determined under the entity method. This is based on the plain language of the treaty, the Commentary on the OECD draft tax treaty (upon which the U.S.-Japan Treaty was based), and the fact that Section 446 of the Internal Revenue Code provides that a tax accounting method must accurately reflect income. Section 446 also provides that taxes must be computed on the same method of accounting that the taxpayer uses in keeping its books. Since the branches keep their internal records on the entity basis, and since the fungibility method often produces an aberration, even those who would benefit from the fungibility approach felt constrained from using it for tax purposes. That the tax law would provide for a profitable branch to operate tax free was considered too good to be true, and was not pursued. Now it is being pursued.

It is the position of many of the foreign banks that the asset-to-asset formula is adequate to implement the fungibility concept as long as business is conducted in only one currency. However, this approach breaks down when business is conducted in more than one currency, and the degree of the breakdown increases as the spread in the prime rates of the currencies in question increases. Even though money is fungible, and borrowing by a bank in one country may release (or generate) funds to lend in another country, it does not follow that the income of a branch bank can be accurately determined if its interest expense is computed by allocating the bank's world-wide interest expense according to the fungibility theory.

The fact that a bank has complete freedom to convert Deutschemarks or yen to dollars and back again, and that the cost of borrowing Deutschemarks or yen is considerably less than borrowing dollars, does not mean that a German or Japanese bank has a competitive advantage (lower cost) in making dollar loans. Once these currencies are converted to dollars, they are subject to the same inflationary deterioration as any other dollars, and competitive U.S. interest rates must be charged. The theory is exactly the same when the home currency prime rate is higher than that of the dollar.

Regulation 861-8

Regulation 1.861-8 states the rules for allocating expenses to U.S. and foreign source income. The rules were developed by the Treasury from the standpoint of limiting the foreign tax credit of U.S. multinational industrial companies operating abroad through subsidiary corporations. Unlike most major industrial countries, the U.S. taxes the world-wide income of its citizens and domestic corporations. A U.S. taxpayer, however, can deduct from his U.S. tax bill taxes paid foreign countries, but only to the extent of the U.S. tax on total foreign source income, with foreign source income computed according to U.S. tax rules, rather than those of the foreign jurisdiction. Thus allocating U.S.-incurred expenses against foreign source income reduces foreign source taxable income and limits the foreign tax credit. Because U.S.-incurred expenses often are not deductible for foreign income tax purposes, these allocations can result in U.S. corporations paying tax on more than 100% of their income, with resulting double taxation.

1973 regulations

In 1973 the Treasury issued "proposed" 861-8 regulations which set out very comprehensive rules for apportioning and allocating interest expense (as well as rules tailored to other types of expenses). The proposed regulations stated that money was fungible and provided that, except in very limited circumstances, interest should be allocated on the basis of capital used. The allocation was to be made according to the relative book values (or fair market values) of income-producing assets.

Those regulations raised a storm of controversy. For some businesses, particularly those heavy in research and development expense, the regulations virtually eliminated the foreign tax credit by allocating these U.S.-incurred expenses to reduce their foreign source income. However, prescribing fungibility and an allocation formula based on the relative book values (or fair market values) of world-wide assets did no fundamental harm to U.S. banks operating abroad through branches.

Rules for banks omitted

The regulations proposed in 1973 applied to all lines of business, with one apparent exception. At Regs. Sec. 1.861-8(e)(1)(iv) was the legend "Rules for financial institutions" followed by the word "[Reserved]."

The current regulations were issued in final form. These reflect compromises on the part of both the Treasury and the U.S. international business community. The members of the business community got rules they felt they could live with and, in effect, agreed in advance of the rules' issuance that they would not contest their validity.

The current regulations do not carve out special treatment for banks. (No explanation was ever given for the void in the proposed regulations.) The current rules continue to espouse the fungibility theory, and provide that interest expense shall be allocated on the basis of the relative book values of income-producing assets (or, optionally, if consistently applied, on the basis of the relative fair market values of income-producing assets). They also permit allocation on the basis of gross income, which is a concession to the business community.

The confusion with the 1973 proposed regulations, with their "reserved" slot for financial institutions, in conjunction with the circumstances of the adoption of the current rules, probably has tied the Treasury's hands as far as abandoning the fungibility approach for U.S. multinational banks. The current rules (the 1977 "final" rules) represent an agreement between the Treasury and the U.S. international business community, including the big banks. The current regulations also represent certainty.

Moreover, the goal of the U.S. banks is not to reduce their overall tax burden below the basic U.S. rate of 46% (they cannot, because their world-wide income is subject to U.S. tax); they merely want rules that will avoid double taxation. The current rules do this.

Foreign reaction

Several foreign governments have reacted to Rev. Rul. 78-423 by reevaluating their taxation of foreign enterprises. One government, in fact, has asked the major U.S. banks doing business in the country to submit calculations showing what their tax liability would be if interest expense were calculated by the fungibility method.

In the U.S., the German banks, in cooperation with their government, have had conferences with the Treasury Department to try to get Rev. Rul. 78-423 reversed. In addition, groups from at least two other countries have noted to the Treasury the effect of the ruling on their branch operations.

The IRS may have a tiger by the tail on this issue. The banks that benefit from Rev. Rul. 78-423 are taking advantage of it. As stated, it is understood that some have already filed refund claims for open years on the basis of the ruling. On the other hand, it appears that those who are hurt by the ruling will continue to file their returns using the entity approach, relying on the tax treaties.

If Rev. Rul. 78-423 is ultimately determined to reflect the law, which many doubt will be the case, the banks that are hurt will contract their operations or restructure them as subsidiary U.S. banks so they will be taxed as separate entities. Thus those who are helped by the fungibility approach will use it, while those who are hurt by it will avoid it.

These points apparently have not been lost on the Treasury Department. On September 10, 1979 a Treasury lawyer stated in a Tax Court proceeding that she understood new proposed Regulations relating to international banking were being considered. In addition there are unofficial reports that the Treasury will soon announce that it will not enforce Rev. Rul. 78-423. ■

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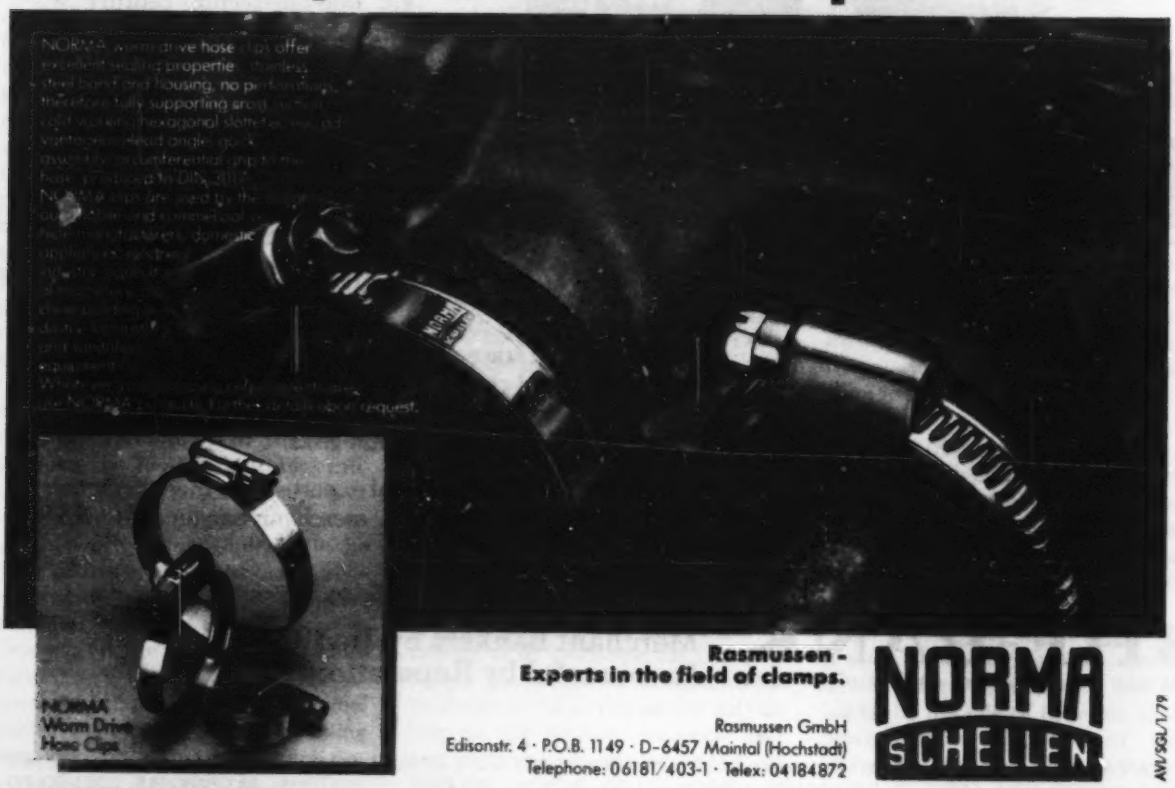

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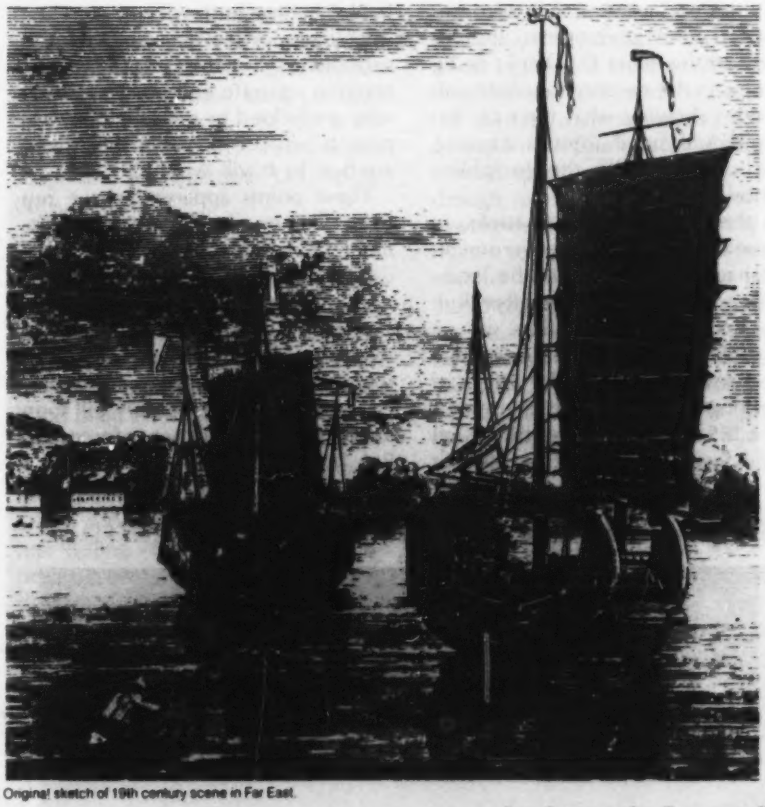

Original sketch of 19th century scene in Far East.

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Germany's Top 100 Corporations

With Veba and Siemens again in the lead, the latest ranking of Germany's leading 100 industrial firms shows only a few transpositions and still fewer new faces.

For the first time in the postwar era, total revenues for German industry passed the DM one trillion level, a mark which was achieved with a modest growth rate of 3.9 percent. To be sure, a good many corporations in Germany's elite "Top 100" turned in above-average performances. Most notably, the three leaders in the 1978 derby—Veba, Siemens, and Volkswagen—each booked sales increases of over 10 percent, with Siemens racking up an impressive 15.1 percent hike on the heels of a whopping leap of 21.8 percent in 1977. Also, the healthy recovery of the German building industry was reflected in robust sales gains for the country's two construction giants, Hochtief and Philipp Holzmann, of 19.1 and 26.4 percent respectively.

Several companies benefited generously from foreign acquisitions, most conspicuously of the Budd Company by Thyssen and Miles Laboratories by Bayer. Last year's prolonged strike by the metal workers union, which was concentrated in the State of Baden-Wuerttemberg, probably cost Stuttgart-based Daimler-Benz up to DM 1 billion in sales, though all of the auto makers profited handsomely from the boom in car sales. As for the chemical and steel giants, their positions in the listing remained for the most part static.

Only ten years ago, Volkswagen achieved the distinction of being the first company in Germany to ring up annual sales of more than DM 10 billion. Since then another eighteen firms have crossed this threshold, and eight of them now exceed DM 200 billion a year in revenues. Veba, Germany's top industrial concern, has risen to the stratospheric level of more than DM 30 billion annualy, and Siemens is bound to join it in the not too distant future.

The explosion in sales can best be illustrated by comparing today's figures with those of a decade ago: total revenues on the books of the 100 largest corporations at that time came to DM 204 billion, compared with DM 589 billion in 1978, a gain of almost 200 percent. Obviously, recessions and structural problems in various branches of industry have caused individual setbacks or hampered growth, but, as a whole, the top 100 have steadily expanded their revenues.

One of the locomotives of this progress was inflation. But, as unmistakable as its influence has been, its weight should not be overestimated. Producer prices in this period did not leap by 200 percent: between 1968 and 1979 they increased "only" 57 percent. One major factor in the revenues explosion has been a liberalization of corporate disclosure. The 1970's have seen more and more firms publishing fully consolidated returns, incorporating annual revenues of their foreign subsidiaries—over and above the legal requirement to publish the sales of domestic subsidiaries only.

However, by far the most decisive catalyst to growth has been the aggressive acquisitions policies of the past ten years. The pace of domestic and foreign acquisitions in the past decade has been heady, and it had been the very largest among Germany's biggest corporations whose revenues have benefited the most from this trend.

Strict comparability difficult

The archetypical example of this growth route is Veba. Ten years ago the company ranked eight, with annual turnover of DM 6.4 billion. And it owed even this position to an earlier acquisition, namely the purchase of Hugo Stinnes AG, whose shares had previously been repatriated from the United States. This in turn was followed by the sale of Hibernia to the newly founded Ruhrkohle AG. 1975 witnessed the great leap to the top

RANK 1978	RANK 1977	FIRM	PRODUCTS	SALES in mil. DM 1978	SALES in mil. DM 1977	EMPLOYEES in 1000 1978	EMPLOYEES in 1000 1977
1	1	Veba	Holding company	31 177	27 389	81.9	66.5
2	2	Siemens	Electrical equipment	29 009	25 198	304.0	319.0
3	4	Volkswagenwerk	Cars, trucks	26 724	24 152	206.9	191.9
4	3	Daimler-Benz	Cars, trucks	24 839	24 723	173.2	169.2
5	5	Hoechst	Chemicals	24 191	23 298	179.5	180.9
		Siemens (No.2)		23 462	19 870	*	*
6	8	Thyssen AG	Iron, steel	23 489	21 021	159.9	142.5
7	6	BASF	Chemicals	23 254	23 181	115.4	113.8
8	7	Bayer	Chemicals	22 836	21 392	179.0	170.4
		Volkswagenwerk (No. 3)		22 383	19 837	*	*
		Thyssen (No. 6)		19 212	19 714	129.9	134.3
		BASF (No. 7)		17 000	16 622	*	*
9	10	Kloeckner Group	Steel, machinery	14 427	14 132	73.4	73.7
10	9	AEG-Telefunken	Electrical equipment	14 097	14 286	162.6	158.4
		Hoechst (No. 5)		13 076	12 637	*	*
11	13	RWE	Utility	12 778	11 871	53.3	57.9
12	15	Mannesmann	Mining, iron, steel	12 670	11 714	108.7	105.6
13	17	Ruhrkohle	Coal	12 488	10 974	136.5	143.3
14	12	Gutehoffnungshuette	Iron, steel, machinery	12 401	12 065	84.4	84.9
		Bayer (No. 8)		12 100	12 085	*	*
15	11	Esso AG	Petroleum	12 076	12 195	4.8	4.7
		AEG-Telefunken (No. 10)		12 024	12 307	*	*
16	16	Krupp	Mining, steel, machinery	11 899	11 169	84.7	86.6
17	14	Deutsche Shell	Petroleum	11 893	11 764	*	*
18	19	Adam Opel AG	Cars, trucks	10 642	9 167	64.8	59.7
		Mannesmann (No. 12)		10 641	9 994	*	*
19	18	Ford-Werke AG	Cars, trucks	10 475	10 163	58.2	56.3
		Veba Oel (No. 1)		9 848	9 805	11.6	11.7
20	20	Robert Bosch GmbH	Electrical equipment	9 618	9 160	117.8	110.5
21	21	Deutsche BP	Petroleum	9 528	8 863	4.2	4.3
		Gutehoffnungshuette (No. 14)		9 479	9 363	*	*
22	22	Quandt Group	Industrial holding	9 300	8 250	67.1	65.0
		RWE (No. 11)		8 212	7 619	21.5	21.2
23	23	Metallgesellschaft	Mining, metals, chemicals	8 000	7 800	*	*
24	25	Flick Group	Industrial holding	7 634	6 661	45.9	46.0
25	24	Deutsche Unilever	Fats, oils, soaps	7 307	7 361	34.8	34.9
		Metallgesellschaft (No. 23)		7 117	6 930	27.3	27.7
		MAN (No. 14)		6 727	6 329	62.2	62.0
26	26	Salzgitter	Mining	6 724	6 419	50.1	52.3
		Wintershall (No. 7)		6 600	6 500	17.1	17.3
		BMW (No. 22)		6 557	5 531	39.8	37.6
27	28	Hoesch-Werke	Steel	6 538	6 230	47.4	48.5
		Bosch GmbH (No. 20)		6 353	6 005	61.2	59.8
28	27	IBM Deutschland	Business machines, typewriters	6 318	6 381	26.0	25.1
29	29	Reemtsma	Tobacco products	6 264	6 182	13.8	14.2
30	30	Deutsche Texaco	Petroleum	5 886	5 671	8.3	8.7
31	31	Henkel Group	Chemicals	5 602	5 363	33.3	34.2
		Kraftwerk Union (No. 2)		5 500	3 000	*	*
32	33	Ruhrgas	Gas, utility	5 493	4 707	*	*
33	32	Mobil Oil in Deutschland	Petroleum	5 174	5 025	2.4	2.4
34	34	Degussa	Metals, chemicals	5 072	4 455	*	*
		Fried. Krupp (No. 16)		5 036	4 292	*	*
		Preussenelektra (No. 1)		4 613	4 231	14.8	14.8
		Audi NSU (No. 3)		4 509	4 230	28.5	28.4
		Degussa (No. 34)		4 496	3 936	12.8	12.8
		Krupp Huettenwerke (No. 16)		4 437	4 521	37.6	38.6
		Mannesmannroehren (No. 12)		4 305	3 956	33.2	34.0
35	38	Hochtief AG	Construction	4 303	3 613	31.1	28.5
		Bruderus (No. 24)		4 303	3 423	22.2	22.1
		Kloeckner-Werke (No. 9)		4 244	4 122	31.9	31.9
36	35	Deutsche Philips	Electronics	4 204	4 026	29.5	31.0
37	42	Enka-Glanzstoff	Chemicals, textiles	4 200	3 200	*	*
38	41	Philipp Holzmann AG	Construction	4 197	3 224	27.5	26.3
		Thyssen Industrie (No. 6)		4 106	4 291	40.4	42.5
39	36	B.A.T. Cigaretten Fabriken GmbH	Tobacco products	4 012	3 677	3.8	3.9
40	40	Saarberg Group	Mining	3 821	3 446	29.3	29.1
41	37	Brown, Boveri & Cie	Electrical equipment	3 784	3 838	36.0	36.7
		IKD (No. 9)		3 739	4 015	31.1	31.2
		Agfa-Gevaert (No. 9)		3 434	3 326	*	*
42	39	Viag	Holding company	3 398	3 842	22.2	22.5
		Henkel KGaA (No. 31)		3 392	3 360	*	*
43	43	Deutsche Babcock	Machinery	3 357	2 981	28.5	28.9
44	46	Vereinigte Elektrizitaetswerke Westfalen (VEW)	Utility	3 143	2 813	7.0	7.0
		Brown Boveri (No. 41)		3 038	3 030	*	*
45	47	Grundig	Electronic equipment	2 956	2 763	39.0	36.0
46	44	Deutsche Saint-Gobain Group	Glass	2 850	2 950	*	*
47	49	Standard Elektrik Lorenz (SEL)	Electrical equipment	2 797	2 738	33.2	32.8
48	50	Brinkmann	Tobacco products	2 756	2 717	4.6	4.6
49	51	Preussag	Petroleum, mining, machinery	2 684	2 619	17.3	17.6
		Huels (No. 1)		2 673	2 736	16.3	16.2
50	52	Deutsche Nestle	Coffee, cocoa	2 648	2 508	13.0	13.0
51	54	Warhahn Group	Industrial holding company	2 641	2 298	*	*
		UK Wesseling (No. 11)		2 594	2 237	2.8	2.8
52	70	Stahlwerke Roechling-Burbach	Iron, steel	2 556	1 750	*	*
53	45	Oetker	Food products	2 471	2 429	11.8	14.2
		Grundig AG (No. 45)		2 464	2 422	*	*
54	55	Boehringer Ingelheim	Pharmaceuticals, chemicals	2 382	2 268	*	*
55		Suedvieh-Suedfleisch Group	Meat, livestock	2 374	2 153	*	*
56		Polygram	Records, Tapes	2 370	1 920	*	*
		Mannesmann-Demag (No. 12)		2 321	2 313	22.6	23.1
57	56	Deutsche Solvay Group	Chemicals	2 300	2 189	*	*
		Saarbergwerke (No. 40)		2 289	1 967	21.5	21.8
		Peine-Salzgitter (No. 26)		2 252	2 161	17.4	18.3
58	53	Bilfinger + Berger	Construction	2 246	2 307	*	*
59	57	Schering	Pharmaceuticals	2 226	2 133	18.1	18.1
		VAW (No. 42)		2 224	2 140	15.0	15.2
		Thyssen Edelstahl (No. 6)		2 163	2 125	16.0	15.7
		Mannesmann Anlagenbau (No. 12)		2 126	2 121	10.8	10.3
60	68	Messerschmitt-Boelkow-Blohm	Aircraft	2 117	1 801	22.3	20.7
61	63	Bayernwerk	Utility	2 085	1 832	*	*
62	58	Siemens-Bosch Appliances	Household appliances	2 084	2 032	*	*
		Dynamit Nobel (No. 24)		2 037	1 956	14.6	14.9
63	60	Conti-Gummi	Rubber products	2 030	1 954	*	*
64	65	Elf Mineraloel	Petroleum	2 029	1 813	*	*
65	59	Ruetgers	Synthetics	2 015	2 004	*	*
66	66	Carl Zeiss	Optical, Precision products	1 954	1 812	29.3	28.2
67	67	Strabag Bau AG	Construction	1 945	1 809	19.8	18.5
68	61	Zahnradfabrik Friedrichshafen	Machinery	1 936	1 903	20.7	19.8
69	62	Magirus-Deutz AG	Trucks	1 927	1 888	12.5	12.7
70	64	Freudenberg	Leather, rubber, plastics	1 920	1 821	23.0	22.7
		Enka AG (No. 37)		1 870	1 784	17.5	17.9
		Krauss-Maffei (No. 24)		1 851	1 069	4.9	4.9
71	73	Linde	Chemicals, machinery	1 825	1 667	*	*
72	69	Kugelfischer Georg Schaefer	Ball and roller bearings	1 824	1 796	28.4	28.9
73	83	Korf Group	Holding company	1 807	1 522	*	*
		Mannesmann Huettenwerke (No. 12)		1 794	1 796	10.5	10.6
		Feldmuehle (No. 24)		1 781	1 766	8.8	8.8
		C. H. Boehringer Sohn (No. 54)		1 760	1 654	14.2	14.2
		Rheinbraun (No. 11)		1 745	1 639	15.2	15.1
74	71	Dyckerhoff & Widmann	Energy, transportation	1 744	1 687	18.1	18.4
		Schering (No. 59)		1 727	1 652	*	*
75	87	Liebherr Group	Heavy machinery, construction	1 707	1 416	11.1	10.3
76	86	Dillinger Huette	Mining	1 664	1 486	8.3	8.5
77	79	Sachs Group	Engines, automotive parts	1 659	1 582	17.7	17.6
		Carl-Zeiss-Stiftung (No. 66)		1 638	1 536	*	*
78	75	VFW-Fokker Group	Aircraft	1 630	1 662	17.7	17.5
		Stoag (No. 13)		1 628	1 536	4.1	4.2
79	98	Eschweiler Bergwerksverein	Metals	1 626	1 290	*	*
80	85	Merck	Pharmaceuticals	1 619	1 474	*	*
		Rheinische Olefin (No. 7)		1 606	1 684	3.5	3.6
81	80	Deutsche Michelin	Tires	1 574	1 548	*	*
82	84	Hamburgische Elektrizitaetswerke AG	Utility	1 573	1 547	*	*
		Ruetgers (No. 65)		1 567	1 593	10.7	10.7
83	81	Norddeutsche Affinerie	Refined metals	1 565	1 543	*	*
		Preussag (No. 49)		1 565	1 567	*	*
		NWK (No. 1)		1 544	1 425	3.1	3.1
84	82	Papierwerke Waldhof-Aschaffenburg	Paper and paper products	1 527	1 536	9.8	10.2
		Kugelfischer (No. 72)		1 518	1 498	23.0	23.9
		Lurgi (No. 23)		1 514	1 518	5.0	5.1
		Howaldtswerke-Deutsche Werft (No. 26)		1 475	1 215	13.2	13.8
85	89	EVS Energie-Versorgung Schwaben	Utility	1 474	1 368	*	*
		Sachs (No. 77)		1 447	1 379	*	*
86	88	Tchibo	Coffee	1 425	1 400	*	*
		Rheinelektra (No. 11)		1 419	1 289	11.1	10.9
87	78	Melitta-Werke	Coffee, coffee makers	1 417	1 600	*	*
88	91	Beiersdorf	Cosmetics, pharmaceuticals	1 414	1 327	*	*
89		Benteler	Steel	1 406	1 204	7.8	7.6
90	92	Deutsche Contigas	Utility, mining	1 380	1 300	*	*
91	90	G. Bauknecht GmbH	Electrical equipment	1 380	1 360	*	*
		Wacker (No. 5)		1 357	1 300	8.7	*
92	98	Bodenwerk	Electronics	1 385	1 243	3.4	3.3
		Zahnradfabrik Friedrichshafen (No. 68)		1 346	1 271	13.6	12.7
93	96	Chevron Erdoel Deutschland	Petroleum	1 343	1 279	0.3	0.3
		Roth-Haendle (No. 29)		1 336	1 299	*	*
94		Du Pont de Nemours	Chemicals	1 323	1 213	*	*
95		Orenstein & Koppel	Hydraulic machinery	1 314	1 130	*	*
96		Philip Morris	Tobacco products	1 307	1 001	*	*
97		Alfred Teves	Metal products, machine tools	1 286	1 218	11.7	11.4
98		Bewag	Utility	1 269	1 187	6.0	6.0
		Kabelmetal (No. 14)		1 269	1 366	8.7	9.5
99	76	Deutsche Marathon	Petroleum	1 253	1 631	0.7	0.7
		Erdoelchemie Koeln (No. 8)		1 250	1 294	3.0	*
100		Leonhard Monheim	Chocolate, cocoa	1 245	992	*	*

Companies listed in roman represent whole or partially owned subsidiaries of the firm whose rank appears in parenthesis.

with the takeover of Gelsenberg AG, which enabled Veba to add sales of DM 7 billion. Finally, in 1978 Veba converted its minority holdings in chemical maker Huels (sales: DM 2.7 billion) to a majority position. Without this transaction, Veba's annual revenues would still be under the 30-billion mark.

Siemens also can, to a large extent, attribute achievement of its runnerup No. 2 spot to acquisitions, but its motivation was of a different order. Siemens did not actively pursue acquisitions in the postwar period; its major subsidiaries have literally fallen into its lap. In 1976, Siemens purchased from AEG-Telefunken the shares of Kraftwerk Union (KWU) and Transformatoren Union (TU), in which each held an equal interest, a move undertaken at the initiative of AEG itself. As a result of this transaction, KWU became a wholly owned subsidiary of Siemens and TU a majority holding. This deal brought Siemens' 1978 turnover to the threshold of DM 30 billion.

In point of fact, if the electronics and electrical engineering giant were to follow generally accepted accounting practices, it would rank ahead of Veba. However, Siemens traditionally prefers to keep a low profile, and understates its total revenues by excluding the results of all subsidiaries in which its interest is 50 percent or less. Thus, if only half the sales of phonograph record maker Polygram (total sales: DM 2.4 billion) and Sie-

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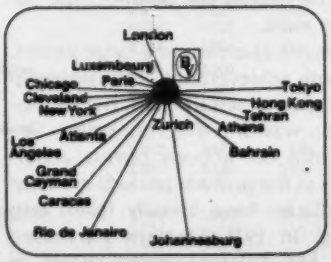

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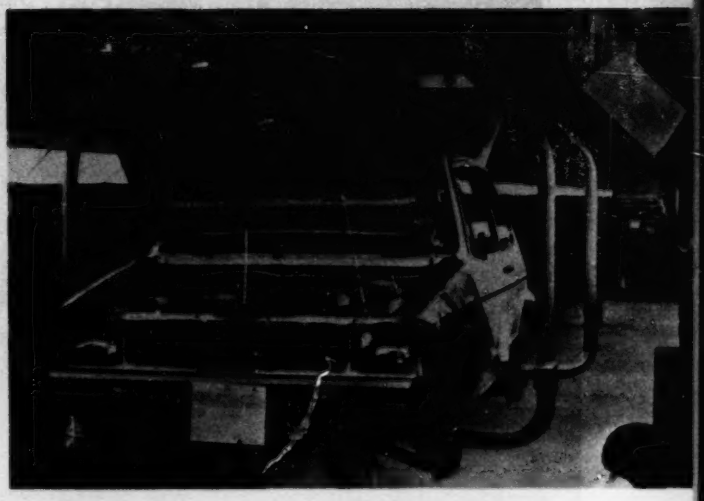


mens-Bosch appliances (total revenues: DM 2.1 billion) were included, Siemens would slip ahead of Veba into the lead.

Comparisons between the two companies are, of course, somewhat misleading. Siemens is almost exclusively a manufacturing enterprise, while Veba derives some 40 percent of its turnover from trading, transportation, and services. Therefore, the "quality" of their earnings is dissimilar. It goes without saying that such differences obtain in many other companies on this list. Hence, strict comparability of annual results is impossible in many instances. Veba/Siemens represents merely one example of the inherent limitations of using sales figures alone as a guide to evaluating the German corporate pecking order.

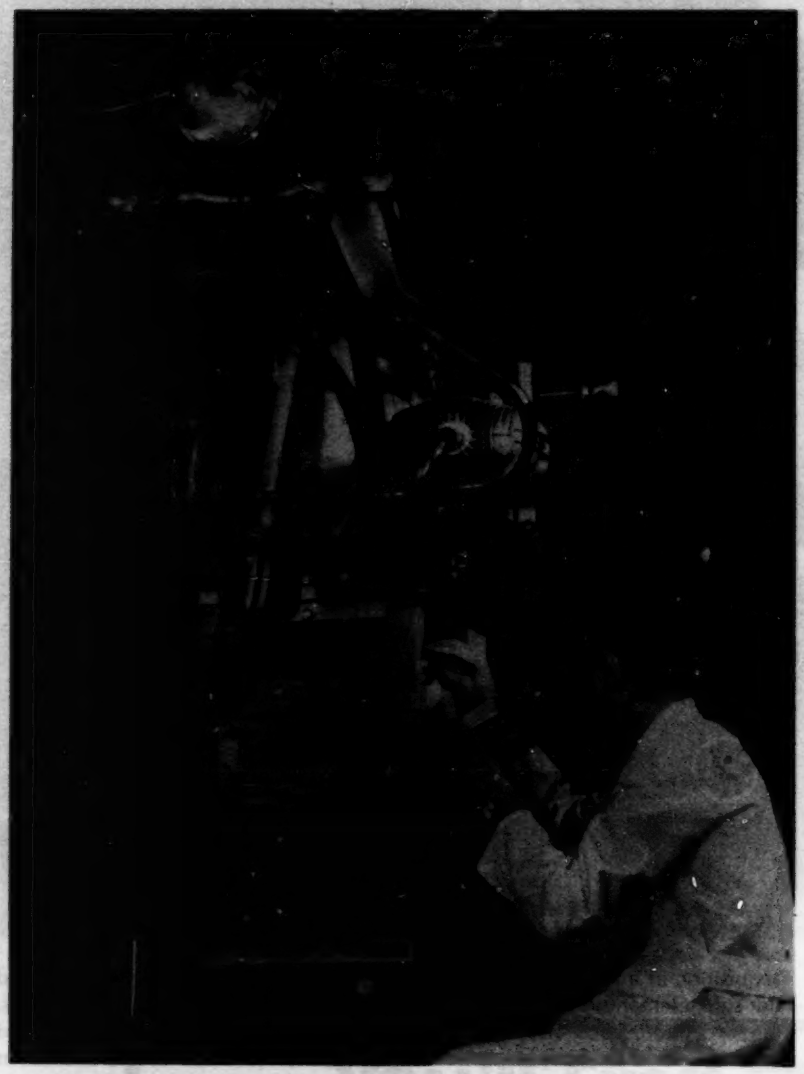
U.S. no longer dominant

Within the ranks of the leading eight companies, each can point to acquisition as a key, though certainly not sole, element in its growth. Without exception, each one has at one time or another bought someone else's earnings. In the process, they have become large enough to enter the same league as the American giants and other leading international companies. Admittedly, the sharp decline of the dollar has contributed mightily to the aspirations of German and foreign multinationals to join the ranks of the giants.

No longer does the United States dominate the *Fortune* list of the 50 leading global industrial companies. In this year's rankings, the U.S. is represented by 22 companies, Europe by 20, Japan by 6, and 2 in Latin America. Veba is excluded from the list because the editors of *Fortune* classify it as a public utility. Otherwise it would stand No. 15 in the international ranking, according to sales.

The eight companies at the apex of the German pyramid have occupied this position for more than ten years. To be sure, other firms have visited temporarily, such as Kloeckner in 1968-1969 and AEG in 1970 and 1972. In the future, similar incursions from the lower regions seem extremely unlikely. Over the last four years, the gap between the top eight firms and the remainder has grown wider and is probably unbridgeable. Only an acquisition of major dimensions could alter this fixed constellation, but neither the antitrust authorities in Bonn or in Brussels are currently predisposed to allow a move in this direction.

The gap is indeed formidable. Only five years ago, in 1973, the sales differential between rung No. 8 and No. 9 amounted to DM 783 million. The next year it had mushroomed to DM 3.8 billion, and almost doubled to DM 6.9 billion by 1976. In 1978 the chasm broadened to DM 8.4 billion. Ex-



pressed in other terms, the discrepancy between the first and eighth companies amounts to DM 8.3 billion, while the revenues cleft between No. 9 (Kloeckner) and No. 19 (Ford) comes to only DM 4 billion. Astonishingly, there is a perfect vacuum in the industrial hierarchy between annual revenues of DM 22 billion (No. 8) and DM 14 billion (No. 9).

In retrospect, the date of this realignment—1974—was hardly accidental. Coinciding with OPEC's quadrupling of oil prices and the international currency "float" the year before, it marked the beginning of the decline in the value of the dollar. In German terms, this enabled corporations in the Federal Republic to acquire foreign companies—primarily in the United States—more cheaply. Clearly, the giants of German industry, with their huge capital resources and a traditional international outlook, were in the best position to seize an exceptional opportunity. Thus, a domestic trend towards greater concentration was augmented by an overseas dimension.

No new faces

This trend will almost surely continue, and more and more firms are likely to join the acquisitions derby. Though Thyssen's foothold in the upper regions was strengthened by its purchase of Budd, the last and most recent entry to the top 100, Leonhard Monheim in position No. 100, was made possible last year by its acquisition of a Belgian chocolate manufacturer. The inevitable consequence of this internationalization will be a greater impetus to sales growth in the future.

The biggest surprise in the 1978 hierarchy is that there were no surprises. The composition of the first eight remained unchanged, and none of them seems likely to be deposed for several years. Two transpositions occurred, with Volkswagen moving up one rung and Thyssen advancing by two. Interestingly enough, not a single new face is to be found in the first 34 positions.

Below the DM 5 billion sales cutoff, we find more fluidity, as we encounter less crass disparities in annual revenues. The largest quantum leap was made by steelmaker Roechling-Burbach, which moved up 18 slots to No. 52 after absorbing Neunkirchner, a Saar steel manufacturer. A head count in the last ten positions is the most prolific source of new entries, although here too we find companies that dropped out and returned.

Acquisition-induced expansion has had little noticeable impact on employment figures. Of the 65 firms for which personnel estimates are available, 31 showed an increase and 26 a decline; for 8 firms listed, employment figures showed little or no change. Total employment rolls for these 65 companies came to 3,300,000 (including overseas subsidiaries), 63,000 more than in 1977, or an increase of 1.9 percent.

Despite the seemingly unassailable foothold of the firms occupying the upper regions of this list, their destinies will be increasingly determined by their response to the two major issues of our era: energy availability and price, and inflation. The ability of the leading industrials to assure themselves of energy sources and raw materials, and their capacity to produce products that are increasingly energy efficient, will be decisive in setting the future course of growth in sales and profits. To the extent that they are able—through rationalization, imagination, and research & development—to produce the kind of products industrial and individual customers want, and at the right price, they will either secure their status in the German industrial hierarchy or lose it to more energetic competitors. ▪

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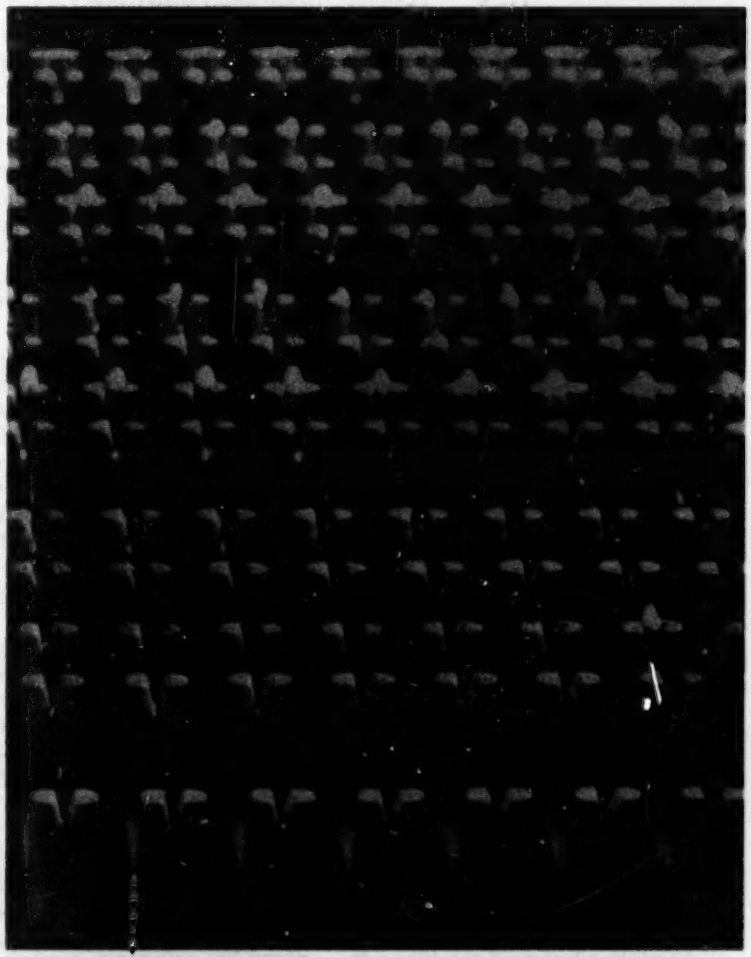

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An Interview with Dr. Friedbert Malt, Senior Vice President and Manager of Deutsche Genossenschaftsbank, New York Branch

As 1979 draws to a close, German and American businessmen on both sides of the Atlantic are evaluating the impact of recent developments in the international economic arena, and are beginning to make plans for the coming year. In an exclusive interview with the German American Trade News, Dr. Friedbert Malt, Senior Vice President and Manager of the New York Branch of Deutsche Genossenschaftsbank evaluates some of 1979's key events in U.S. and German economic affairs and makes some predictions about what to expect in the new year.

GATN: How has inflation in the U.S., which has been accompanied by dramatic boosts in interest rates, affected the business of your Branch?

Malt: To the extent that money market and lending activities are based on matching funds, changes of interest rates affect banks only marginally. Therefore conservatively run banks should neither benefit nor suffer heavily from changing interest rates.

However, we have seen a definite impact on the borrowing patterns of companies in recent weeks. Loan demand has picked up and a number of larger corporations are lining up commitments from banks as protection against a further tightening of money availability. This is accompanied by an improvement of spreads and fees, which for some time have been at rock bottom levels.

Inflation has to be a reason for worry for all banks as increasing operating costs are not fully covered by higher spreads. To cope with this problem, banks are forced to expand business volume and further rationalize their operations.

GATN: The dollar recently lost ground again vis-a-vis the DM. At the same time, however, German exports to America reached record levels in the early part of the second half of the year. How do you account for this, and do you expect this trend to change or reverse itself in 1980?

Malt: Besides the different inflation rates and expectations involved, other important factors affect the exchange rate. Only a small fraction of dollar/DM transactions results from bilateral trade. Most exchange transactions are purely financial transactions between highly developed economies.

Looking back it appears that the general business climate in the U.S. is more important for German exports than the (temporary) strength or weakness of the dollar. Presently there is a real danger of a decline of U.S. demand for German products. At the same time, however, the fears of a new world-wide surge of inflation may lead to an acceleration of orders, both worldwide and in the U.S. The shift of future demand to the present—in itself a symptom of a deep-seated inflation mentality—can in turn stimulate exports to the U.S.

For 1980 other countries can also be expected to suffer a slowdown, which should hurt German exports in general. In addition, oil prices and world inflation will further boost prices of German products. The recent acceleration of inflation in Germany was caused exclusively by rising prices for imports, including oil, and by a 10% hike of the Value Added Tax in July. The investment boom, previously expected to generate rapid growth in 1980 in Germany, will probably be delayed by a worldwide economic slowdown. Still 3% real growth

would be better than most advanced countries are likely to achieve in 1980.

GATN: Will the dollar recover in 1980, and if so, how well will it fare against the DM?

Malt: Being somewhat sarcastic, one could say that foreign exchange forecasting is a version of roulette.

To be honest, who really knows? The dollar will be over the worst if American economic policy succeeds in coping with inflation and in considerably reducing its balance of payments deficit. If stagnation gives way to recession, both problems will appear in a completely new light. Also, it remains to be seen how next year's presidential election process will affect the dollar. One thing is sure: The more political uncertainty there is, the weaker the dollar will be.

The near-term outlook for the D-Mark in relation to the dollar now depends chiefly on the reaction of currency markets to the latest tightening of the monetary supply by the Federal Reserve Bank. The exchange markets had expected a more comprehensive dollar support package. They will take a while to digest the full meaning of the Fed's action, which in some respects was unexpected. If markets judge the measures as disappointing and ineffective, the dollar is likely to come under pressure again.

Worries about the 5% rate of inflation in the Federal Republic continue to weigh heavily on the minds of the country's political leaders and monetary authorities. This implies that the Deutsche Bundesbank will not digress from its restrictive monetary course in order to prevent a new weakening of the dollar. German interest rates will hardly be allowed to come down until the growth of the domestic money supply is firmly under control. Excess D-Mark liquidity, created by the Bundesbank's exchange market intervention, will continue to be siphoned off as quickly as possible with the help of dollar/D-Mark swap operations between the Central Bank and commercial banks.

GATN: The implementation of the European Monetary System (EMS) in March was intended to provide a climate of currency stability in Europe which many European economists felt would contribute, if only indirectly, to the stability of the dollar. Do you think that the recent decline in the value of the dollar vis-a-vis several major EMS currencies, especially after the recent EMS realignment, refutes the original prediction?

Malt: In my opinion it is an error to assume that the EMS is able to stabilize the dollar directly or indirectly to any measurable extent. On the contrary, if the dollar weakens for whatever reason, the EMS is directly jeopardized because the D-Mark—the preferred alternative currency—comes under revaluation pressure.

The persistence of a crisis of confidence in the dollar is of utmost importance. A revaluation pressure for the D-Mark, over several months would be fatal for the EMS.

An interesting facet of the recent EMS realignment is the fact that the emergency meeting of EEC Finance Ministers and Central Bank Governors was called for by the German representatives rather than those of Denmark and Belgium, whose currencies were under intense downward pressure. The Germans wanted a revaluation of the D-Mark, and they achieved a modest one only after they managed to overcome strong opposition from the BENELUX nations.

This underscores a significant change in EMS thinking. When the system was formally set up in March of this year, most of the participants viewed the mechanism as one that would enable Germany to hold the value of its currency artificially low while limiting the ability of the weaker members to devalue their currencies in line with inflation differentials and other economic disequilibria. Instead, the EMS has been helping the latter to keep some reins on their inflation rates, whereas German authorities have been finding the task of curtailing the erosion of the D-Mark's domestic purchasing power increasingly difficult. The realignment does not only help to reduce imported inflation in Germany, but also lessens the need for the Bundesbank to intervene in the exchange market on behalf of other EMS members, an activity which makes it difficult to keep the expansion of the domestic money supply under control.

The German authorities can hardly be blamed if they refuse to believe that a slackening of their drive for greater domestic monetary stability would make the inflation fight easier for the United States. Interest rates in the Federal Republic are by no means exorbitant. They certainly are much lower than those in the United States and they would not lure funds away from the dollar if it were not for the general lack of faith in that currency.

How long the freshly gained calm within the EMS will last is of course another matter. My guess is that the respite will prove to be fairly short-lived, especially if the dollar remains under pressure. The Belgian Franc is already on the weak side vs. the D-Mark, and chances are that the Danish Kroner will soon be found in the lower half of the intervention band. There will then be renewed speculation that the value of the D-Mark within the snake will have to be adjusted upward—speculation which in the end could again become self-fulfilling.

GATN: How long do you think the current U.S. recession will last?

Malt: By attacking inflation head-on and sharply tightening credit, Miller and Volcker have decided to stop dealing merely with symptoms. This action deserves support, because it will not only cool off the U.S. economy but, shortly before the presidential election, will probably lead to a painful recession. The present buildup of inventory exceeds the growth of demand and therefore will lead inevitably to a decline in production.

A further rise in the cost of credit in the second half, along with an inevitable downturn in profits, should dampen housing as well as business investment.

A premature relaxation of fiscal policy could boost consumption by election time next year and leave the thankless task of coping with stagflation—a possible characteristic of the U.S. economy for a prolonged period of time—to the next administration.

GATN: How do you account for the especially low rate of productivity growth in the U.S.?

Malt: In the United States, manufacturing facilities were not affected by World War II, which means that they did not have to be replaced by more modern equipment. In Germany, however, companies were forced to replace damaged or dis-

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mantled industrial plants with more efficient ones in order to compete effectively in international markets.

Apparently U.S. companies were hesitant to spend the capital required to introduce new production methods promptly, due to the lack of serious competition from other countries. The steel industry is a prime example.

GATN: How will the economic slowdown in the U.S. affect trends in Germany? Do you think that current lags in U.S. capital investment and slow GNP growth will spill over into Germany and its European partners? Can government economic and monetary policies in the U.S. and Europe be coordinated in order to avoid a prolonged and widespread period of recession?

Malt: In contrast to earlier economic phases, the present one is marked by different economic trends in the U.S. and in Europe. Economic growth in the U.S. is declining after a strong initial boom, while the average economic growth rates in Western Europe for 1979 were relatively favorable. The trend of the U.S. economy and the energy problem have created a high degree of uncertainty, but there is a good chance that a worldwide recession can be avoided. World trade in 1979 was encouraging (expected increase 7%) and 1980 should see real growth of 3.5%.

By giving priority to the fight against inflation, those responsible for the economies and currencies of the Western industrial countries have taken an appropriate step toward stability and economic growth. The European countries know from their own experience that this is a rough journey which does not exclude periods of stagflation and temporary increases in unemployment. Despite the efforts of the monetary authorities, fundamental imbalances and deformations such as inflation and a weak balance of payments cannot be solved merely by foreign-exchange interventions.

GATN: Foreign, and especially German direct investment in the U.S. continued to expand dramatically in 1979. Do you see America's attractiveness for foreign investors continuing into the early 1980's?

Malt: The risk of growing worldwide protectionism forces companies to be present in the various markets with manufacturing and production capabilities. In the U.S. this trend is aggravated by the unpredictable dollar/DM ratio, which makes it difficult for businesses to rely on long-term price and profit calculations.

In the long run one can predict that economic growth rates will be higher in the U.S. than in Europe, considering such factors as population growth, internal expansion, and natural resources. I expect to see the United States remain attractive to German investors; private investors will continue to invest in the U.S. in order to spread their assets at a reasonable return.

According to the U.S. Department of Commerce, foreign direct investment in the U.S. increased by $5.7 billion last year; in 1977 the increase amounted to $3.3 billion. In 1977 a total of 427 direct investments were made.

GATN: How would you evaluate the latest steps taken by the Federal Reserve aimed at fighting inflation? Do you see long-term benefits and how will the steps affect the current U.S. recession? What effects will the moves have on the value of the dollar in international markets?

Malt: In the long run the Federal Reserve measures could very well help to curb inflation.

If the recent stabilization measures lead to a persistent decrease in inflation, the dollar would certainly benefit from it.

The dismal performance of the dollar in international currency markets no doubt played an important role in the Fed's decision to step harder on the brakes. But at this point it is not yet clear as to what other measures, if any, the U.S. authorities intend to use to back up the monetary tightening. Nor is it easy to see just what they could do, at this stage of the game, to make certain that the dollar is protected against any further exchange market pressures.

There is little to be gained from efforts to beef up the Fed's capacity for direct currency intervention. Another issue of D-Mark or Swiss Franc "Carter bonds" cannot hurt, of course. The same may be said for the activation of hitherto dormant Fed swap lines with the Central Banks of the United Kingdom, France and Italy. But the markets no longer have much respect for the resources at the Fed's disposal. They are far more interested in how the Federal Reserve deploys its arsenal. And in this climate, any truly massive marshalling of additional funds could even be counter-productive, since it might give the impression that the $30 billion kitty established last November 1st is now seriously depleted.

A better coordination of intervention techniques among the leading Central Banks, providing the dollar with consistent support around the clock in all the major markets, would probably be a more effective measure, and my guess is that some agreement along these lines was reached in Belgrade at the IMF-Meeting. It is important which amounts governments abroad are willing to provide in defense of the dollar. After all, foreign Central Banks buying up dollars must pump equivalent quantities of their own currencies into the local money supplies. And if there is one message which came through loud and clear at Belgrade, it is that the fight against inflation has moved to the top of economic priority lists just about everywhere in the industrialized world.

If the dollar is to be helped in any meaningful way, the main thrust of Washington's support action must be on the U.S. domestic front. What has hurt the dollar most in recent months is the impression gained abroad that the Carter Administration is politically hamstrung and irresolute in its fight against inflation. There appeared to be no real sense of urgency in Washington, even though the erosion of the dollar's domestic purchasing power is now proceeding at a yearly rate of close to 14% and is still accelerating.

The recent hike of the discount rate was then welcomed by the exchange markets, as a sign that the Federal Reserve, with the support of the Administration, is becoming more courageous. The boost should drive the U.S. prime rate up high enough, so that it will no longer be negative in real terms. The 8% marginal reserve requirement established by the Fed on Eurodollar borrowings and other

"managed liabilities" of banks should dampen the explosion of the monetary aggregates, since such liabilities, according to the Fed's own estimates, currently total $240 billion and have increased by $17 billion over the last three months alone (equivalent to half the rise in bank credit during that time).

However, as a dollar support program with lasting impact, these measures by themselves will not be enough. What is needed now is a convincing demonstration of resolve to sustain the squeeze until there is unassailable evidence of its success in winding down monetary growth and reducing inflation. The markets are still suspicious that under the political pressure of the approaching elections the restraint will be abandoned the moment it begins to hurt, and that it will not be complemented by discipline on the fiscal front. And if, therefore, the Carter Administration in the weeks ahead gave any indication that these suspicions may be justified, a fresh run out of the beleaguered dollar would be virtually guaranteed. ▪

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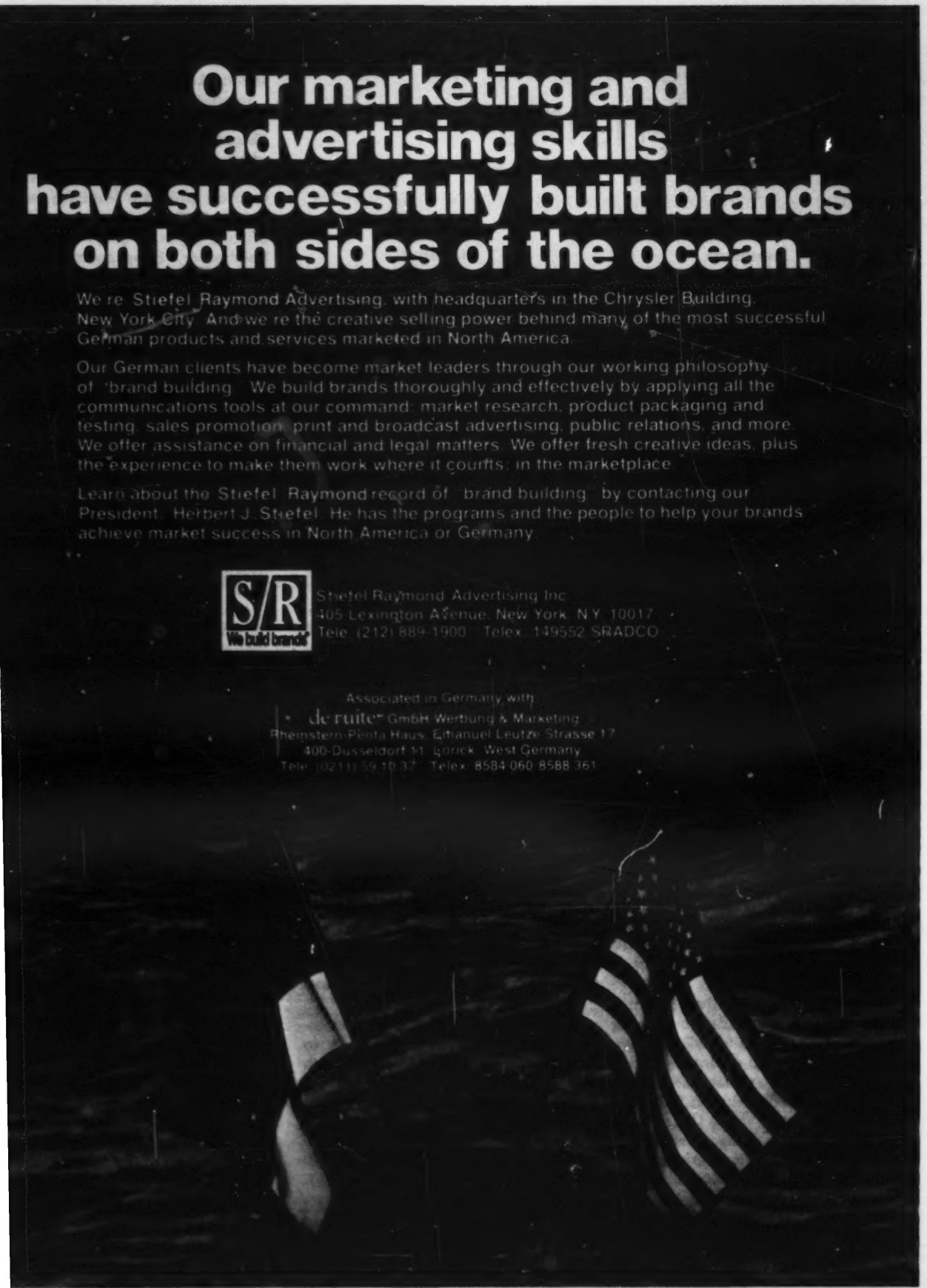

Licenses & Investments

Investment

Manufacturer is interested in locating a production facility in the United States to manufacture and supply the North American market with **special engine building and hardware sets for window blinds and awnings.** The German firm also has developed an electronic control system for retracting and extending blinds and awnings that can be programmed for sun, rain and wind, as well as some new microcomputer steering. Herr Blum, MFB Neuwerk, Mechanische Fensterbehaenge GmbH, Postfach 290327, Heidacker 15, D-2850 Bremerhaven 29.

Joint Venture

Manufacturer of **waste heat recovery equipment, sound control insulation and exhaust gas control equipment,** is seeking a U.S. joint venture partner. The ideal partner visualized by the German firm is one already manufacturing AC and hearing equipment. Peter G. Schneider, Manager, Stock Schallschutz und Montage GmbH, Abgastechnik, Dieselstrasse 8, D-7500 Karlsruhe 41.

Manufacturer of patented, soft **ice cream-making machines** of high capacity seeks an American joint-venture partner to make and distribute the equipment in the U.S. Klaus Dreher, Manager, Lumen GmbH, Naehrmittel- und Maschinenfabrik, Petzmannsberg 11, D-8650 Kulmbach.

An old, well established, German manufacturer of circular cold sawing machines, sawing and drilling lines, saw-blades, thread cutting machines, threading tools, and sawblade sharpening machines, wishes to find a cooperation partner in the U.S. to make **conveying, measuring, sawing and drilling lines** for structural steel companies and the trade. Also thread cutting die heads. Guenther Wagner, Gustav Wagner, Maschinenfabrik, Opfersteinstr. 11, P.O. Box 113, D-7410 Reutlingen 1.

Licensing

Insecticides firm seeks to license the manufacture of insecticides, insect repellent sprays, barrel cleansers, browning agents for sporting arms, cleaning-protecting-emulsifying agents for all arms, and a non-emulsifying oil spray for all types of metal products. Dr. Zettler, Manager, F. W. Klever Chemische Fabrik, Hauptstrasse 20, D-8311 Aham.

Automatic in-line booster pump. Inventor seeks to license U.S. firm to manufacture an automatic in-line booster pump, which increases pressure and capacity of water mains. Henning G. Bartels, Harvestehuder Weg 48, 2000 Hamburg 13.

Thermo insulation techniques. Firm seeks U.S. company, preferably in the northern regions and snow belt area of the U.S., to manufacture under license self-locking aluminum foil wrappers used for fiberglass and flameproof PVC materials for thermo-insulation. The "wraps" are designed for tubes and bends of varying diameters, varying thicknesses of insulation. Herrn Hans-Klaus Korff, Managing Partner, Korff & Company, Isolierbaustoffe, Dieselstrasse, 5, D-6057 Dietzenbach-Steinberg.

Auto safety seat. Firm offers license to manufacture in U.S. a safety seat for automotive vehicles. Seat is registered under U.S. Patent No. 3,802,737. Ralf Herzer, Kurt Herzer-Flexiform Werk, Postfach 410469, D-7500 Karlsruhe 41.

Nontoxic cancerous growth inhibitor. Firm seeks license in the U.S. to produce a nontoxic cancerous growth inhibitor developed by Dr. Walter Kuhlmey. Hor-Fer-Vit Pharmazeutische Fabrik, Wehdestrasse 16, D-2900 Oldenburg

Structured facing concrete. Firm offers technical know-how for partnership for production of structured facing concrete as well as structured ceiling elements known as the Seeger System. Fritz Seeger, Owner & Manager, Seeger-Schaltechnik GmbH, Gymnasiumstrasse 1, D-7513 Stutensee-Blankenloch.

Interested in licenses for the manufacture of **sheet type products from fibrous materials which can be manufactured on wet vat cylinder mold cardboard machines.** The firm's production program includes matrix board, resin board, photopolymeric printing plates. Employs 90. Horst A. Reinheimer, Feinpappenfabrik. TH. Jaeger GmbH & Co., Papiermuehle, D-8672 Selb, Germany. Telephone: 09287/1313.

Seeks licenses from U.S. firms to manufacture **all types of coal preparation machinery and equipment** such as classifying, flotation, separating, concentrating, cleaning, clarifying, and related equipment. Established in 1962, the firm employs 170 and has annual sales of $5.8 million. It makes machinery and equipment of the chemical and mining industries; also manufactures vessels and bridge construction elements. Stog GmbH, Riphausstr. 31, 4355 Waltrop, West Germany.

A leading manufacturer of shooting ranges and bowling alleys plans further diversification. Is interested in licenses to produce a **complete line of process control instruments for civilian measuring and warning use in private households and industry.** Product interests include **warning indicators for methane gas; noise level indicators; pressure recorders; ozonometers; oxygen analyzers; ultraviolet radiation recorders.** The company was established in 1938, employs 240 worldwide. Well managed. Gerhard Lorch, Ernst K. Spieth KG, Fritz Mueller-Str. 145, D-7300 Esslingen; Telephone: 0011-49-711-312-071; Telex: 721458.

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German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1977	1978	1979			1977	1978	1979		
			June	July	August			June	July	August
FOREIGN TRADE (in mil.$)										
Imports	101,457	121,822	12,773	14,203	12,970	147,644	172,020	16,937	16,777	18,177
Exports	118,070	142,296	13,691	14,536	13,503	120,107	143,570	15,038	15,669	15,821
Balance on merchandise trade	16,613	20,474	918	333	533	−27,537	−28,450	−1,899	−1,108	−2,356
U.S.-GERMAN TRADE (in mil.$)										
U.S. imports from Germany	7,868	10,042	972	1,035	869	7,215	9,961	1,003	962	1,045
(+)(−) % from previous year	37.1	27.6	1.8	24.1	15.4	29.0	38.1	28.4	0.5	22.7
U.S. exports to Germany	7,338	8,726	832	891	873	5,823	6,815	636	610	673
(+)(−) % from previous year	4.9	18.9	5.2	45.8	11.9	4.2	17.0	25.0	29.0	24.2
Balance on U.S.-German trade	530	1,316	140	144	−4	−1,393	−3,146	−367	−352	−372
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	2.7	2.6	11.8	7.3	5.2	5.6	5.8	4.3	3.7	2.0
Iron and steel	−4.8	5.8	2.3	—	—	−1.4	9.5	4.6	2.1	—
Machines, exc. elec.	−0.3	0.2	10.5	8.3	—	7.3	7.5	6.7	7.0	6.5
Electrical machinery and equipment	7.3	1.1	5.0	3.5	—	7.8	8.7	13.6	7.3	6.6
Chemicals	0.4	5.2	8.5	—	—	6.7	5.5	8.9	5.6	6.4
Road motor vehicles	8.4	2.3	10.8	1.4	—	13.5	5.4	0.4	−7.0	−20.7
Textiles	−1.5	−1.1	11.2	24.7	—	0.5	2.1	4.1	5.3	4.1
Apparel	−4.1	−3.2	−3.4	—	—	1.6	3.7	−2.6	—	—
LABOR MARKET										
Population (in mil.)	61.4	61.3	—	—	—	216.8	218.5	220.3	220.4	—
Civilian labor force (in 1000)	25,044	25,209	—	—	—	97,401	100,420	102,528	103,059	—
Unemployed (in 1000)	1,030	993	763	804	799	6,855	6,047	5,774	5,848	—
Unemployment rate (in %)	4.5	4.4	3.3	3.5	3.5	7.0	6.0	5.6	5.7	—
Gross hourly wages in manufacturing (in DM or $)	11.27	11.88	—	—	—	5.68	6.17	6.67	6.72	—
(+)(−) % from previous year	7.4	5.4	—	—	—	8.8	8.6	9.0	8.7	—
PRICES (+)(−) % from previous year										
Consumer Price Index	3.9	2.6	3.9	4.6	4.9	6.5	7.7	10.9	11.3	11.8
Producer prices for ind. products	2.6	1.2	4.7	5.4	5.9	7.0	7.3	11.9	12.9	13.7
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	2.3217	2.0084	1.8828	1.8239	1.8291					
Value of DM 1.00 in $						0.4308	0.4987	0.5308	0.5482	0.5467

	1977	1978	1978-1979				1977	1978	1978-1979			
			III	IV	I	II			III	IV	I	II
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,194	1,283	1,312	1,403	1,257	1,358	1,887	2,107	2,160	2,235	2,292	2,329
(+)(−) % from previous year, real terms	2.6	3.4	4.0	3.7	3.8	4.4	4.9	4.0	3.9	4.8	4.6	
Balance on current account (in mil. DM or $)	9,831	17,584	426	9,061	2,613	−2,102	−14,092	−13,895	−3,227	−313	157	—
Monetary reserves (in mil. $)	39,737	53,875	44,641	53,883	53,141	51,159	19,390	19,580	19,570	19,580	22,420	21,240
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	52,142	58,193	—	58,193	—	61,562	149,848	168,081	—	168,081	—	—
—German investment in the U.S.	6,705	8,591	—	8,591	—	10,057						
—U.S. investment in Germany							11,071	12,746	—	12,746	—	—
Foreign direct investment	49,253	53,326	—	53,326	—	54,691	34,595	40,831	—	40,831	—	—
—U.S. investment in Germany	19,049	19,923	—	19,923	—	20,580						
—German investment in the U.S.							2,529	3,191	—	3,191	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium für Wirtschaft; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

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1. The Export-Import Bank of the United States earlier this year installed a toll-free "Hot Line" to provide on-the-spot advice and assistance in answering questions about export financing. This service has proved very useful to American firms, especially small businesses, in finding out which Eximbank financing program could be most effectively used in their export activities and in receiving information on how to apply for Exim assistance, where to find export credit insurance, and how to make maximum use of complementary assistance programs offered by other U.S. government agencies. The number to call for this service is: (800) 424-5201

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3. A guide entitled "Meeting German Business" was recently published by the Atlantik Bruecke. The guide, in English, contains concise summaries of important aspects of doing business in the Federal Republic. Tips on such things as business luncheons in Germany, correspondence and language obstacles are included along with descriptions of the banking community, the stock exchanges, the business press and organized labor. The guide may be ordered from the German American Chamber of Commerce for $4.00 per copy.

4. American Marketing Network, Inc. recently made itself known to German food producers at the ANUGA Trade Fair for the Food Industry in Cologne. AMN is a nationwide integrated marketing system for food products, both domestic and foreign. The company is jointly owned by 47 food brokers who together employ some 2,400 regionally active marketing experts. German food producers who wish to export their products to the U.S. may obtain further information about AMN by writing to Mr. Stephen Dee, President, American Marketing Network, Sanders Court, Northbrook, Ill. 60062.

5. The German American Chamber of Commerce has published a report entitled MERGER CONTROL IN THE FEDERAL REPUBLIC OF GERMANY by Dr. Bobo Haggeney, Partner in the Stuttgart law firm of Gleiss, Lutz, Hootz, Hirsch and Partners. The 20-page brochure presents an informative and up-to-date description of laws and regulations applying to corporate mergers in the Federal Republic. Copies are $9 each and can be ordered directly from the Chamber.

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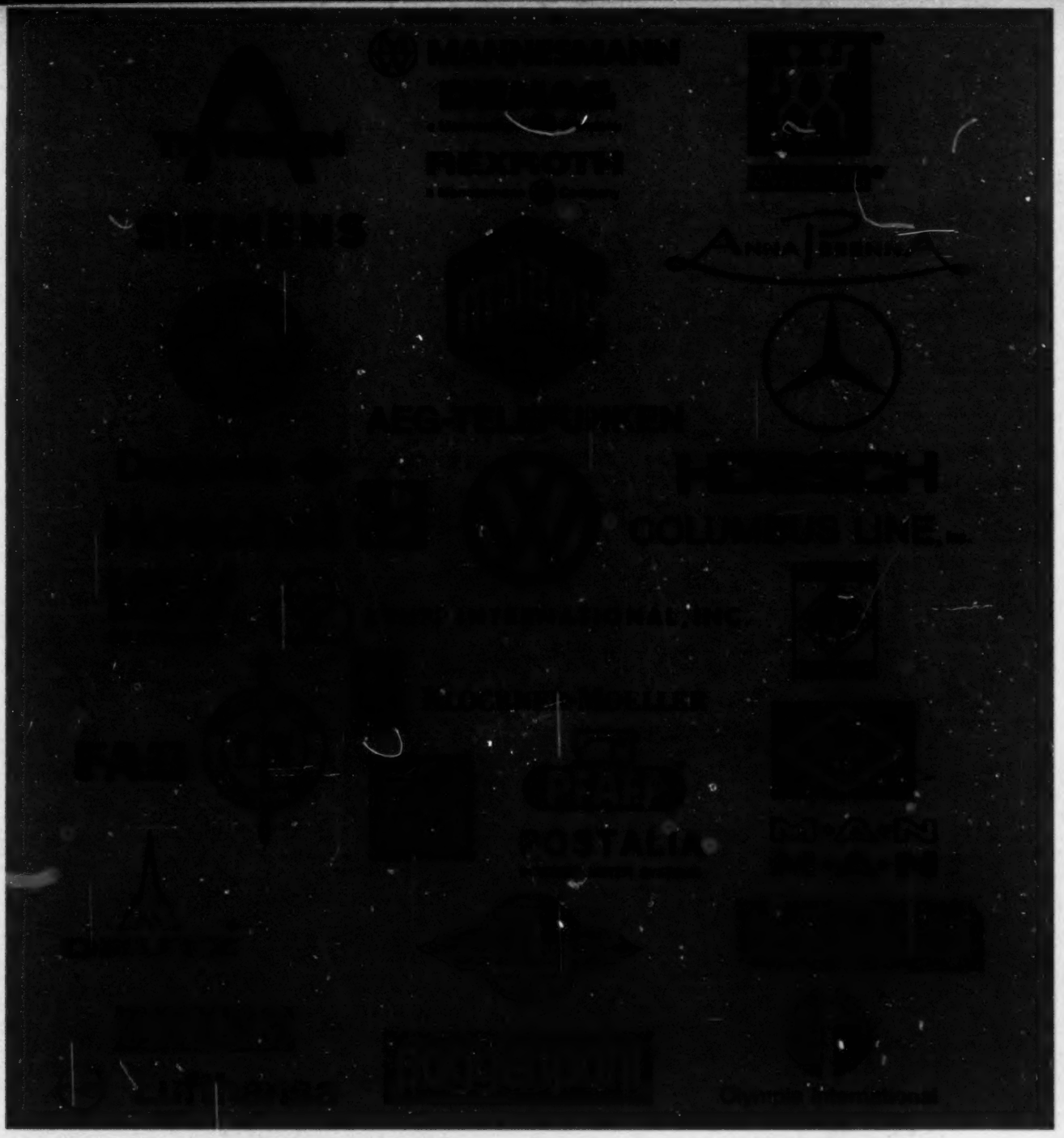

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